

**Financial Statements**

**City of Ithaca**

**Ithaca, Michigan**

**June 30, 2004**



# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>CITY OF ITHACA</b>	County <b>GRATIOT</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>8/19/04</b>	Date Accountant Report Submitted to State: <b>12/31/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>ROSLUND, PRESTAGE &amp; CO., PC, CPA'S</b>			
Street Address <b>308 GRATIOT AVENUE</b>		City <b>ALMA</b>	State <b>MI</b>
Accountant Signature <i>Chad R. Payton, CPA</i>		ZIP <b>48801</b>	Date <b>12/31/04</b>

City of Ithaca  
June 30, 2004

**CONTENTS**

**Independent Auditor's Report**

**Management's Discussion and Analysis** I - VII

**Basic Financial Statements:**

*Government -wide Financial Statements:*

Statement of Net Assets	1
Statement of Activities	2

*Fund Financial Statements:*

Governmental Funds Balance Sheet	3
----------------------------------	---

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	4
---	---

Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balance	5
---	---

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
---	---

Statement of Net Assets – Proprietary Funds	7
---	---

Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	8
---	---

Statement of Cash Flows – Proprietary Funds	9
---	---

*Fiduciary Fund:*

Fiduciary Funds – Statement of Net Assets	10
---	----

*Component Units:*

Statement of Net Assets – Component Units	11
---	----

Statement of Activities – Component Units	12
---	----

Notes to Financial Statements	13 - 31
-------------------------------	---------

City of Ithaca  
June 30, 2004

**CONTENTS (CONTINUED)**

**Required Supplementary Information:**

Budgetary Comparison Schedules	32 - 38
--------------------------------	---------

**Other Supplementary Information:**

Combining Balance Sheet – Non-Major Governmental Funds	39 – 40
Combining Statement of Revenues, Expenditures and Changes In Fund Balance – Non-Major Governmental Funds	41 – 42
Government Auditing Standards Report	43 - 44



## **INDEPENDENT AUDITOR'S REPORT**

City Council  
City of Ithaca  
Ithaca, Michigan

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ithaca (the City), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, in 2004, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2004 on our consideration of the City's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages I-VII, and budgetary comparison information on pages 32-38, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Co., P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

August 19, 2004

## **MANAGEMENT'S DISCUSSION and ANALYSIS**

## **Comprehensive Summary of Fiscal Year 2003/2004 Management Discussion and Analysis**

As management of the City of Ithaca (the "City"), we offer readers of the City's financial statements, this narrative overview and analysis of the financial activities of the City for the fiscal year ending June 30, 2004. The management's discussion and analysis ("MD&A") is intended to assist the reader in focusing on significant financial issues and provide an overview of the City's financial activity. The City encourages readers to consider the following information here in conjunction with the financial statements taken as a whole, which follow this section.

### **Financial Highlights**

- The net assets of the City are the amount by which the City's assets exceeded its liabilities. At June 30, 2004, net assets of the primary government totaled \$7,074,936. The unrestricted portion of this amount, \$2,781,166 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$598,928. This increase resulted from an increase in net assets of the business activities of \$358,823 and an increase in net assets of governmental activities by \$240,105. The increase in business-type activities' net assets accumulated from strong volume growth in water and sewer operations. Governmental net assets were in part related to reporting fixed assets for the first time.
- At June 30, 2004, the City's governmental funds reported combined ending fund balances of \$1,139,983. This is an increase of \$193,095 from the prior year. Approximately half of this increase is due to deferral of projects from 2004 to 2005 in the Major Street and Local Street Systems. Of the total fund balance for governmental funds \$1,117,477, is *available for spending* at the government's discretion (*unreserved fund balance*). At June 30, 2004, the unreserved general fund balance stands at 25.5% of 2004 general fund expenditures.
- The City's long-term debt consisted of General Obligation Bonds and Customer Deposits in the business activities and Fire Truck Debt in the non-major governmental activities.
- A schedule of the City's long-term obligations can be found in the notes to financial statements.



## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets, library, and economic development. The major business-type activities of the City include the Water Supply System and Sewage Disposal System.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate authority for which the City is financially accountable. The Downtown Development Authority is a separate authority and financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers will better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains seven major and eleven non-major individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and all major special revenue funds. Data from the non-major governmental funds are combined in a single column presentation on the governmental funds statements. Individual fund data for each of these non-major governmental funds is provided in the *combining statements* section of this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. Budget comparison statements have also been provided for the other major funds. These can be found in the required supplementary information section of this report.

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water Supply System and Sewage Disposal System. *Internal service funds* are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Equipment and Material usages. The services of the Equipment and Material predominantly benefit governmental rather than business-type functions, and have been included in their entirety within *governmental activities* in the government-wide financial statements.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City uses fiduciary funds to account for its Agency funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and the accompanying notes, this report also presents certain *required supplementary information* as required by GASB statement 34 regarding the City's budgetary comparison of the general fund and six major special revenue funds. This supplementary information is contained behind its own tab following the footnotes to financial statements

**Government-wide Financial Analysis.** The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The overall financial position of the City has improved during the year. The reason for this is that the City budgeted for a decrease in State revenue sharing, an increase in property tax base, and declining long-term debt. This combination has significantly affected operating results.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of June 30, 2004, the City's governmental funds reported combined ending fund balances of \$1,139,983. Of this total, \$1,117,477 constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of the fund balances are *reserved* to indicate that it is not available for new spending because it has already been committed. The amount of the unreserved governmental fund balance increased by \$192,791 during fiscal 2004. The primary source of that increase was rolling over the street projects into the 2004/2005 fiscal year.

The general fund is the chief operating fund of the City. At June 30, 2004, unreserved fund balance of the general fund was \$264,909. The fund balance represents 25.5% of total general fund expenditures, up from 10.8% in 2003.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements. Unrestricted net assets of the Water Supply System and Sewage Disposal System at the end of the year amounted to \$1,036,721. The total growth in net assets for enterprise funds was \$358,823. The major factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

**Asset and Liability Analysis.** The total assets of the City as of June 30, 2004 were \$7,765,983. Of this amount, capital assets accounted for \$4,450,415. In converse, the total liabilities as of June 30, 2004 were \$691,047. Of this amount, long-term liabilities (due in more than one year) accounted for \$374,820.

The total net assets of the City as of June 30, 2004 were \$7,074,936. \$4,045,415 is invested in capital assets, net of related debt, while \$248,355 is a restricted amount, and \$2,781,166 is an unrestricted amount.

The largest component of the City's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, and others), less any related debt outstanding that was needed to acquire or construct the assets. Unrestricted net assets are the next largest component. These represent resources that may be used at the City's discretion, but often have limitations based upon policy action. The remaining portion, restricted net assets, are subject to external restrictions such as bond covenants, City Charter, State legislation, or Constitutional provision.

**Program Revenue Analysis.** While property taxes are considered general revenue, there are a variety of accounts that are considered program revenue. They include: Building permits, contributions from the Townships for operation of the fire and rescue departments, cemetery lot sales and grave openings, and fines levied by the library such as penal fines and library book fines.

**Transfers.** There were four transfers out of the general fund to other funds: Fire Department, First Responders, Cemetery Operations, and Material Fund.

**Long-term Debt Activity.** Long-term debt includes general obligation bonds and customer deposits in the water/sewer operations, fire truck debt, and compensated absences.

### **General Fund Budgetary Highlights**

The major changes from the City's originally adopted budget and the final budget for 2004 for the general fund are as follows:

- Projections were made for additional sale of assets in Westwind Estates that did not materialize before June 30, 2004.
- Additional expense was realized by contracting out Assessor services mid-fiscal year.
- The revised projection for property tax revenue was short by \$6,911.

### **Economic Factors and Next Year's Budgets and Rates**

The General Operating Fund of the City is primarily reliant on City income tax collections and distributions of State shared taxes to support general City service delivery. In the year ended June 30, 2004, 59% of all general fund revenues were derived from these local and State tax levies. Both the State and local economies continue to suffer from economic weakness, which began in early calendar year 2001. In preparing for the 2004/2005 fiscal year (year beginning July 1, 2004) the City assumed a modest improvement in the economy and a decrease in State shared tax revenues. The City will continue to monitor the State budget and the revenue sharing appropriation contained therein to assure that any significant deviation from forecasted revenues or appropriations are promptly addressed.

In future years, the MD&A letter will compare the current year to prior year for comparative data.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 129 West Emerson Street, Ithaca, Michigan, 48847. Contact telephone number (989) 875-3200.

**BASIC FINANCIAL STATEMENTS -  
GOVERNMENT WIDE FINANCIAL STATEMENTS**

City of Ithaca  
Government Wide Statement of Net Assets  
June 30, 2004

	<b>PRIMARY GOVERNMENT</b>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Units</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$995,512	\$460,970	\$1,456,482	\$115,928
Investments	222,968	170,047	393,015	-
Property taxes receivable	749,115	240,355	989,470	-
Other receivables - net	28,153	117,105	145,258	-
Due from other governments	112,127	-	112,127	-
Internal balances - net	(8,429)	8,429	-	-
Inventories	-	34,316	34,316	-
Notes receivable - net	184,900	-	184,900	3,126
Capital assets - net	<u>1,615,949</u>	<u>2,834,466</u>	<u>4,450,415</u>	<u>29,004</u>
<b>Total assets</b>	<u>3,900,295</u>	<u>3,865,688</u>	<u>7,765,983</u>	<u>148,058</u>
<b>LIABILITIES</b>				
Accounts payable	90,948	1,794	92,742	-
Accrued and other liabilities	17,381	2,766	20,147	-
Noncurrent liabilities				
Due within one year	13,688	189,650	203,338	-
Due in more than one year	<u>169,529</u>	<u>205,291</u>	<u>374,820</u>	<u>-</u>
<b>Total liabilities</b>	<u>291,546</u>	<u>399,501</u>	<u>691,047</u>	<u>-</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,615,949	2,429,466	4,045,415	29,004
Restricted for				
Streets and highways	225,849	-	225,849	-
Other purposes	22,506	-	22,506	-
Unrestricted	<u>1,744,445</u>	<u>1,036,721</u>	<u>2,781,166</u>	<u>119,054</u>
<b>Total net assets</b>	<u>\$3,608,749</u>	<u>\$3,466,187</u>	<u>\$7,074,936</u>	<u>\$148,058</u>

The notes to the financial statements are an integral part of this statement.



City of Ithaca  
Government Wide Statement of Activities  
For The Year Ended June 30, 2004

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government			Component Units
				Governmental Activities	Business-Type Activities	Total	
<b>Primary Government</b>							
General government	\$778,934	\$79,009	-	(\$699,925)	-	(\$699,925)	-
Public safety	465,066	93,698	\$77,718	(293,650)	-	(293,650)	-
Public works	249,456	-	296,096	46,640	-	46,640	-
Recreation and cultural	191,440	1,810	111,190	(78,440)	-	(78,440)	-
Interest on long-term debt	3,963	-	-	(3,963)	-	(3,963)	-
Total governmental activities	1,688,859	174,517	485,004	(1,029,338)	-	(1,029,338)	-
Business type activities							
Water and Sewer	381,505	490,390	-	-	\$108,885	108,885	-
Total primary government	\$2,070,364	\$664,907	\$485,004	(1,029,338)	108,885	(920,453)	-
<b>Component units</b>							
Downtown development authority	\$300	-	-	-	-	-	(\$300)
<b>General Revenues</b>							
Property taxes				777,833	243,036	1,020,869	-
State-shared revenues				398,570	-	398,570	-
Unrestricted investment earnings				17,755	6,902	24,657	460
Transfers				-	-	-	-
Miscellaneous				75,285	-	75,285	-
Total general revenues				1,269,443	249,938	1,519,381	460
Change in net assets				240,105	358,823	598,928	160
Net assets - July 1, as restated				3,368,644	3,107,364	6,476,008	147,898
Net assets - June 30				\$3,608,749	\$3,466,187	\$7,074,936	\$148,058

The notes to the financial statements are an integral part of this statement.

## **FUND FINANCIAL STATEMENTS**

City of Ithaca  
Governmental Funds Balance Sheet  
June 30, 2004

	General Fund	Major Street	Local Street	Library	Economic Development	Fire Operating	Gibbs Memorial	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>									
Cash and cash equivalents	\$211,490	\$129,727	\$55,985	\$26,552	\$40,161	\$119,037	\$224,885	\$94,146	\$901,983
Investments	-	-	-	142,163	-	-	-	80,805	222,968
Accounts receivables - net	23,245	-	4,908	-	-	-	-	-	28,153
Notes receivable	-	-	-	-	184,900	-	-	-	184,900
Due from other funds	14,233	390	-	-	-	-	-	-	14,623
Due from other governments	53,803	40,213	10,806	-	-	5,640	-	1,665	112,127
Total assets	<u>\$302,771</u>	<u>\$170,330</u>	<u>\$71,699</u>	<u>\$168,715</u>	<u>\$225,061</u>	<u>\$124,677</u>	<u>\$224,885</u>	<u>\$176,616</u>	<u>\$1,464,754</u>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>Liabilities</b>									
Accounts payable	\$6,210	-	\$137	\$561	-	\$79,325	-	\$3,487	\$89,720
Accrued liabilities	13,115	\$718	1,092	2,456	-	-	-	-	17,381
Due to other funds	18,537	14,233	-	-	-	-	-	-	32,770
Deferred revenue	-	-	-	-	\$184,900	-	-	-	184,900
Total liabilities	<u>37,862</u>	<u>14,951</u>	<u>1,229</u>	<u>3,017</u>	<u>184,900</u>	<u>79,325</u>	<u>-</u>	<u>3,487</u>	<u>324,771</u>
<b>Fund balances</b>									
Reserved for perpetual care	-	-	-	-	-	-	-	22,506	22,506
Unreserved, undesignated, reported in:									
General fund	264,909	-	-	-	-	-	-	-	264,909
Special revenue funds	-	155,379	70,470	165,698	40,161	45,352	\$224,885	150,623	852,568
Total fund balances	<u>264,909</u>	<u>155,379</u>	<u>70,470</u>	<u>165,698</u>	<u>40,161</u>	<u>45,352</u>	<u>224,885</u>	<u>173,129</u>	<u>1,139,983</u>
Total liabilities and fund balances	<u>\$302,771</u>	<u>\$170,330</u>	<u>\$71,699</u>	<u>\$168,715</u>	<u>\$225,061</u>	<u>\$124,677</u>	<u>\$224,885</u>	<u>\$176,616</u>	<u>\$1,464,754</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
To Net Assets of Governmental Activities on the Statement of Net Assets  
For the Year Ended June 30, 2004

Total fund balance - governmental funds	\$1,139,983
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	3,444,901
Deduct: accumulated depreciation	(2,179,252)
Internal service funds are used by management to charge the cost of equipment and materials to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	452,319
Property tax revenue that was earned and accrued in the current period but not available is only recognized as revenues in the government wide financial statements.	749,115
An adjustment for deferred revenue recognized on the balance sheet of the governmental funds is not included as liabilities on the statement of net assets. This deferred revenue item is recognized on the balance sheet of the governmental funds because a long term receivable is also recognized. However, this long term receivable is not available to pay current liabilities.	184,900
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Notes payable	(75,027)
Deduct: Compensated absences	(108,190)
Net assets of governmental activities	<u>\$3,608,749</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balance  
For the Year Ended June 30, 2004

	General Fund	Major Street	Local Street	Library	Economic Development	Fire Operating	Gibbs Memorial	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>									
Taxes and penalties	\$740,413	-	-	-	-	-	-	-	\$740,413
Licenses and permits	57,303	-	-	-	-	-	-	-	57,303
Federal grants	-	-	-	-	-	\$76,090	-	-	76,090
State grants	398,570	\$232,511	\$63,585	-	-	-	-	\$1,628	696,294
Charges for services	-	-	-	\$1,810	-	71,805	-	43,599	117,214
Fines and forfeits	-	-	-	111,190	-	-	-	-	111,190
Interest and rentals	8,242	599	-	5,820	\$214	496	\$124	1,846	17,341
Other revenues	54,037	390	4,908	4,908	6,600	1,665	-	2,777	75,285
<b>Total revenues</b>	<u>1,258,565</u>	<u>233,500</u>	<u>68,493</u>	<u>123,728</u>	<u>6,814</u>	<u>150,056</u>	<u>124</u>	<u>49,850</u>	<u>1,891,130</u>
<b>Expenditures</b>									
Current									
General government	634,331	-	-	-	-	-	-	65,462	699,793
Public safety	298,811	-	-	-	-	92,355	-	38,939	430,105
Public works	48,843	110,959	89,654	-	-	-	-	-	249,456
Recreation and cultural	4,000	-	-	153,824	-	-	-	-	157,824
Other	14,211	-	-	-	-	-	-	-	14,211
Capital outlay	37,423	-	-	5,873	-	78,441	-	-	121,737
Debt service	-	-	-	-	-	-	-	16,909	16,909
<b>Total expenditures</b>	<u>1,037,619</u>	<u>110,959</u>	<u>89,654</u>	<u>159,697</u>	<u>-</u>	<u>170,796</u>	<u>-</u>	<u>121,310</u>	<u>1,690,035</u>
<b>Excess of revenues over (under) expenditures</b>	<u>220,946</u>	<u>122,541</u>	<u>(21,161)</u>	<u>(35,969)</u>	<u>6,814</u>	<u>(20,740)</u>	<u>124</u>	<u>(71,460)</u>	<u>201,095</u>
<b>Other financing sources (uses)</b>									
Transfers in	-	-	-	-	-	43,187	-	102,193	145,380
Transfers out	(84,180)	(49,457)	49,457	-	-	(25,000)	-	(44,200)	(153,380)
<b>Total other financing sources (uses)</b>	<u>(84,180)</u>	<u>(49,457)</u>	<u>49,457</u>	<u>-</u>	<u>-</u>	<u>18,187</u>	<u>-</u>	<u>57,993</u>	<u>(8,000)</u>
<b>Excess of revenues and other sources over (under) expenditures and other uses</b>	<u>136,766</u>	<u>73,084</u>	<u>28,296</u>	<u>(35,969)</u>	<u>6,814</u>	<u>(2,553)</u>	<u>124</u>	<u>(13,467)</u>	<u>193,095</u>
<b>Fund Balance, July 1</b>	<u>128,143</u>	<u>82,295</u>	<u>42,174</u>	<u>201,667</u>	<u>33,347</u>	<u>47,905</u>	<u>224,761</u>	<u>186,596</u>	<u>946,888</u>
<b>Fund Balance, June 30</b>	<u>\$264,909</u>	<u>\$155,379</u>	<u>\$70,470</u>	<u>\$165,698</u>	<u>\$40,161</u>	<u>\$45,352</u>	<u>\$224,885</u>	<u>\$173,129</u>	<u>\$1,139,983</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
Reconciliation of the Statement of Revenues, Expenditures  
And Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
For the Year Ended June 30, 2004

Net change in fund balances - total governmental funds	\$193,095
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	121,737
Deduct: depreciation expense	(134,464)
Revenues in the funds that provide current financial resources but have been included in the Statement of Activities in prior years.	37,420
Internal service funds are used by management to charge the cost of certain activities, such as equipment rents and material usage, to individual funds. The net revenue of the internal service funds is reported with governmental activities.	14,154
Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	12,946
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Less: increase in accrual for compensated absences	(4,783)
Change in net assets of governmental activities	<u>\$240,105</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
Statement of Net Assets  
Proprietary Funds  
June 30, 2004

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
Assets	Water and Sewer	
Current assets		
Cash and cash equivalents	\$460,970	\$93,529
Investments	170,047	-
Trade accounts receivable	117,105	-
Property taxes receivable	240,355	-
Due from other funds	8,429	9,718
Inventory of supplies, at cost	34,316	-
Total current assets	1,031,222	103,247
Capital assets		
Water and sewer system	4,483,845	-
Machinery and equipment	78,398	993,193
Less: accumulated depreciation	(1,727,777)	(642,893)
Net capital assets	2,834,466	350,300
Total assets	\$3,865,688	\$453,547
Liabilities		
Current liabilities		
Accounts payable	\$1,794	\$1,228
Accrued payroll and payroll taxes	2,766	-
Current portion of bonds	205,000	-
Less: deferred loss on refunding	(15,350)	-
Total current liabilities	194,210	1,228
Long-term liabilities		
Customer deposits	12,965	-
General obligation bonds	200,000	-
Less: deferred loss on refunding	(7,674)	-
Net long-term liabilities	205,291	-
Total liabilities	399,501	1,228
Net assets		
Invested in capital assets, net of related debt	2,429,466	350,300
Unreserved	1,036,721	102,019
Total net assets	\$3,466,187	\$452,319

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2004

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
	Water and Sewer	
Operating revenues		
Water and sewer sales	\$474,852	-
Penalties and interest charges	6,362	-
Installation and other charges	9,176	\$16,311
Service charges	-	190,404
Property taxes	243,036	-
	<u>733,426</u>	<u>206,715</u>
Total operating revenues		
Operating expenses		
Personal services	115,941	30,582
Contractual services	35,217	135
Utilities	1,405	7,360
Repairs and maintenance	11,035	26,701
Other supplies and expenses	77,124	73,107
Depreciation	101,118	63,090
	<u>341,840</u>	<u>200,975</u>
Total operating expenses		
Operating income (loss)	<u>391,586</u>	<u>5,740</u>
Nonoperating revenues (expenses)		
Interest revenue	6,902	414
Interest expense	(39,665)	-
	<u>(32,763)</u>	<u>414</u>
Total nonoperating revenues (expenses)		
Income before contributions and transfers out		
Transfers	-	8,000
	<u>-</u>	<u>8,000</u>
Change in net assets	358,823	14,154
Total net assets, as of July 1	<u>3,107,364</u>	<u>438,165</u>
Total net assets, as of June 30	<u>\$3,466,187</u>	<u>\$452,319</u>

The notes to the financial statements are an integral part of this statement.



City of Ithaca  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2004

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Funds
	Water and Sewer	
Cash flows from operating activities		
Receipts from customers	\$490,259	\$205,471
Payments to suppliers / outsiders	(220,495)	(109,533)
Payments to employees	(115,988)	(31,075)
Internal activity - payments to other funds	(169,714)	(1,718)
Other receipts - taxes	229,711	-
	<u>213,773</u>	<u>63,145</u>
Net cash provided by operating activities		
Cash flows from capital and related financing activities		
Purchases of capital assets	(11,168)	(35,306)
Principal and interest paid on capital debt	(234,315)	-
Proceeds from sale of capital assets	-	13,456
	<u>(245,483)</u>	<u>(21,850)</u>
Net cash used in capital and related financing activities		
Cash flows from investing activities		
Interest revenue	6,902	414
	<u>6,902</u>	<u>414</u>
Net increase (decrease) in cash and cash equivalents	(24,808)	41,709
Cash and cash equivalents, July 1	485,778	51,820
Cash and cash equivalents, June 30	<u>\$460,970</u>	<u>\$93,529</u>
Reconciliation of operating income (loss) to net cash provided (used) by Operating Activities		
Operating income (loss)	\$391,586	\$5,740
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	101,118	63,090
Change in assets and liabilities		
Receivables - net	(13,455)	(1,718)
Inventories	(1,455)	-
Accounts and other payables	(264,021)	(3,967)
	<u>(264,021)</u>	<u>(3,967)</u>
Net cash provided by operating activities	<u>\$213,773</u>	<u>\$63,145</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
Fiduciary Funds  
Statement of Net Assets  
June 30, 2004

	<u>Agency Fund</u>
Assets	
Cash and equivalents	<u>\$13,255</u>
Total assets	<u><u>\$13,255</u></u>
Liabilities	
Accounts payable	<u>\$13,255</u>
Total liabilities	<u><u>\$13,255</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
Statement of Net Assets - Component Units  
June 30, 2004

	<u>Downtown Development Authority</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$115,928
Note receivable	3,126
Capital assets - net	<u>29,004</u>
Total assets	<u>148,058</u>
 <b>LIABILITIES</b>	 -
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	29,004
Unrestricted	<u>119,054</u>
Total net assets	<u><u>\$148,058</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
Statement of Activities - Component Units  
For the Year Ended June 30, 2004

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
<b>Downtown Development Authority</b>				
General government	\$300	-	-	(\$300)
<b>General Revenues</b>				
Unrestricted interest and investment earnings				<u>460</u>
Change in net assets				160
Net assets, July 1				<u>147,898</u>
Net assets, June 30				<u><u>\$148,058</u></u>

The notes to the financial statements are an integral part of this statement.

**NOTES TO THE FINANCIAL STATEMENTS**

City of Ithaca  
Notes to Financial Statements

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the City of Ithaca (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the City.

**New Accounting Standards Adopted**

In fiscal year 2004, the City adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- # 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – (an Amendment to No. 34)*
- # 38 – *Certain Financial Statement Note Disclosures.*

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities, business-type activities, and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Debt Account Group.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

City of Ithaca  
Notes to Financial Statements

Statement No. 34 also requires certain required supplementary information in the form of *Management's Discussion and Analysis* which includes an analytical overview of the City's financial statements. In addition, a budgetary comparison statement is presented that compares the adopted and modified budget for all major funds with actual results.

Statement No. 37 amends GASB Statements No. 21 and 34. The amendments to Statement 21 are necessary because of the changes to the fiduciary fund structure required by Statement 34.

GASB has issued Statement No. 38, *Certain Financial Statement Note Disclosures* which modifies, establishes and rescinds certain financial statement disclosure requirements.

### **Reporting Entity**

The City of Ithaca was incorporated in 1961 and covers an area of approximately four square miles. The City is located in the County of Gratiot, Michigan and is the county seat. The City operates under an elected mayor and six council members and provides services to its residents in many areas including law enforcement, fire protection, water and sewer utilities, community enrichment and development.

### **Discretely Presented Component Units**

Component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government.

The financial statements of the following component units have been "discretely presented" in the accompanying report because (I) their governing boards are not substantially the same as the governing body of the City, or (II) the component units provides services entirely or almost entirely to the citizenry and not the City.

City of Ithaca  
Notes to Financial Statements

Downtown Development Authority - The Ithaca Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of eleven individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City's Council. The City is financially accountable for the Downtown Development Authority's activities.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to consumers who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.



City of Ithaca  
Notes to Financial Statements

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, claims and judgments, are recorded only when payment is due.

The City's property tax is levied on each December 1<sup>st</sup> on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31<sup>st</sup>.

Although the City's 2003 ad valorem tax is levied and collectible on December 1<sup>st</sup>, 2003, it is the City's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2003 taxable valuation of the City totaled \$45.0 million, on which ad valorem taxes levied consisted of 14.3379 mills for operating purposes and 1.479 mills for emergency service, raising \$645 thousand for operating purposes, and \$67 thousand for emergency services. These amounts are recognized in the general fund as tax revenues.

The 2003 taxable valuation of the City totaled \$50.6 million (for debt service), on which ad valorem taxes levied consisted of 4.5 mills for debt service, raising \$228 thousand for debt service. This amount is recognized in the water and sewer fund as tax revenues.

City of Ithaca  
Notes to Financial Statements

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of state revenue sharing revenues that are restricted for use on local streets.

The Library Fund accounts for the resources of library revenues that are restricted for the operations of the City's library.

The Economic Development Fund accounts for resources used to promote economic development of the City.

The Fire Fund accounts for resources used to provide fire services to residents of the City of Ithaca and surrounding townships.

The Gibbs Memorial Fund accounts for resources to fund special projects.

The City reports the following major proprietary funds:

The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

Internal service funds account for major machinery and equipment purchases, as well as material purchases, provided to other departments of the City on a cost reimbursement basis.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

City of Ithaca  
Notes to Financial Statements

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for services provided. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to / from other funds". Activity between funds that is representative of lending / borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

All trade receivables are shown as net of allowance for uncollectible amounts.

Inventories

Inventories are valued at cost, on a first-in, first-out basis, for the City's business-type activities. For all other funds, the City does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

City of Ithaca  
Notes to Financial Statements

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was incurred or capitalized.

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Operating Equipment	3 – 20
Computer Equipment	3 – 5
Vehicles	7-10
Buildings and Improvements	20-50
Land	Not Applicable – Not Depreciated

Compensated Absences (Vacation and Sick Leave)

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. These compensated absences are accrued in the government-wide financial statements.

Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

City of Ithaca  
Notes to Financial Statements

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the first day of March of each year, a proposed budget for the next fiscal year is submitted to the budget officer. The budget officer compiles such information and submits it to the council, along with recommendations, no later than the second council meeting in April of each year. This operating budget includes proposed expenditures and the means of financing them for the fiscal year commencing the following July 1<sup>st</sup>. The council holds public hearings and final budgets are adopted prior to July 1<sup>st</sup>.

Prior to July 1st, the budget is legally enacted pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978, as amended).

The City Treasurer is authorized to transfer budgeted amounts between departments within any fund; however, council must approve any revisions that alter the total expenditures of any fund.

Formal budgetary integration is employed as a management control device during the year. The City does not maintain a formalized encumbrance accounting system.

City of Ithaca  
Notes to Financial Statements

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is at the function level.

Excess of Expenditures over Appropriations in Budgeted Funds

During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as shown as negative variances, on pages 32 – 38.

**NOTE 3 – DETAIL NOTES**

**Deposits and Investments**

Michigan Compiled Laws, Section 129.91, authorized the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City has designated six banks for the deposit of City funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in

- Bonds, securities and other obligations of the United States Government
- Certificates of deposit, savings accounts, and deposit accounts
- United States government or federal agency obligation repurchase agreements

The City's deposits and investment policy are in accordance with statutory authority.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

City of Ithaca  
Notes to Financial Statements

At year end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business- Type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and equivalents	\$995,512	\$460,970	\$13,255	\$1,469,737	\$115,928
Investments	222,968	170,047	-	393,015	-
Total	\$1,218,480	\$631,017	\$13,255	\$1,862,752	\$115,928

The breakdown between deposits and investments is as follows:

	Primary Government	Component Units
Bank deposits (checking and savings accounts and money market funds)	\$1,469,357	\$115,928
Certificates of deposits	393,015	-
Petty cash	380	-
Total	\$1,862,752	\$115,928

The bank balance of the primary government's deposits is \$1,501,506, of which \$503,698 is covered by federal depository insurance. The remaining amount is uninsured and uncollateralized. The component units' deposits had a bank balance of \$115,928 of which \$115,928 is covered by federal depository insurance. Deposits which exceed FDIC insurance coverage limits are held at local banks.

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the Local Governmental Unit or its agent in the government's name;
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; and
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Local Governmental Unit's name.

At year-end, the City's investment balances were all categorized as category 1.

City of Ithaca  
Notes to Financial Statements

**Receivables**

Receivables as of year-end for the City's individual major and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Street Fund	Local Street Fund	Economic Development Fund	Fire Operating Fund	Non-Major and other funds	Total
Accounts	\$6,145	\$-	\$4,908	\$-	\$-	\$-	\$11,053
Sale of Westwind Estates	17,100	-	-	-	-	-	17,100
Intergovernmental	53,803	40,213	10,806	-	5,640	1,665	112,127
Notes	-	-	-	184,900	-	-	184,900
Water and Sewer Billings	-	-	-	-	-	117,105	117,105
Total	\$77,048	\$40,213	\$15,714	\$184,900	\$5,640	\$118,770	\$442,285

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of deferred revenue are as follows:

	Unavailable	Unearned
Note receivable	\$184,900	\$-



City of Ithaca  
Notes to Financial Statements

**Interfund Receivables, Payables and Transfers**

The composition of interfund balances is as follows:

Fund	Interfund Receivables	Interfund Payables
General	\$14,233	\$-
Major Street	-	14,233
General	-	18,537
Major Street	390	-
Water / Sewer	8,429	-
Equipment	9,718	-
Totals	\$32,770	\$32,770

Transfers between funds during the year were as follows:

	Transfers In	Transfers Out
<b>Major Governmental Funds</b>		
General	\$-	\$84,180
Major Street	-	49,457
Local Street	49,457	-
<b>Nonmajor Governmental Funds</b>		
Fire Operating	43,187	25,000
Cemetery	51,100	-
First Responder	21,093	5,000
Cemetery Sinking	-	38,850
Fire & Rescue Sinking	30,000	-
Cemetery Perpetual Care	-	350
<b>Internal Service Funds</b>		
Material	8,000	-
Totals	\$202,837	\$202,837

City of Ithaca  
Notes to Financial Statements

**Capital Assets**

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Land	\$144,758	\$-	\$-	\$144,758
Buildings	1,597,901	-	-	1,597,901
Equipment and Vehicles	2,890,589	157,043	352,197	2,695,435
Subtotal	4,633,248	157,043	352,197	4,438,094
Less Accumulated Depreciation	2,999,850	197,554	375,259	2,822,145
Net Capital Assets Being Depreciated	1,488,640			1,471,191
Governmental Activities Total Capital Assets – Net of Depreciation	\$1,633,398			\$1,615,949

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business Type Activities</b>				
Land	\$14,432	\$-	\$-	\$14,432
Water & Sewer System	4,551,554	11,168	14,911	4,547,811
Subtotal	4,565,986	11,168	14,911	4,562,243
Less Accumulated Depreciation				
Water & Sewer System	1,641,570	101,118	14,911	1,727,777
Net Capital Assets Being Depreciated	2,909,984			2,820,034
Business-Type Activities Total Capital Assets – Net of Depreciation	\$2,924,416			\$2,834,466

City of Ithaca  
Notes to Financial Statements

Capital assets not being depreciated include land. Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$65,887
Public Safety	34,961
Recreation and Culture	33,616
Total Governmental Activities	134,464
Business-Type Activities	
Water and Sewer	101,118
Total Business-Type Activities	101,118

The City is considered a "Phase 3" Government, as defined by GASB 34. Accordingly, the City has elected to not retroactively apply the reporting of major general infrastructure assets.

### Long-Term Debt

The City's long-term debt as of June 30, 2004 is as follows:

Compensated Absences - City policy allows employees to accumulate vacation at the rate of ½ day per month for the first 4 years of service and 1 day per month, thereafter. Additional days of vacation are awarded on the employee's anniversary date after 4, 8, 12, 16, 19 and 20 years of service. Amounts accumulated up to a maximum of 25 days for city employees, and 42 days for police officers, are to be paid to the employee and recognized as an expense either when vacations are taken or upon termination of employment. Vacation pay liability at June 30, 2004 and 2003 was \$37,935 and \$34,897, respectively.

City policy allows employees to accumulate one sick leave day per month with a maximum accumulation of 60 days. Sick leave expenses are recognized at the time the days are used, or upon termination of employment. Upon termination of employment, with the exception of gross misconduct, 100% or 50% of accumulated sick pay will be paid to the employee, depending on their date of hire. Sick leave pay liability at June 30, 2004 and 2003 was \$70,255 and \$68,510, respectively.

City of Ithaca  
Notes to Financial Statements

Note Payable - Note Payable, due in annual installments of \$16,909 through October 2008. Interest is at 4.46% per annum. As of June 30, 2004 and 2003, the balance of this note payable is \$75,027 and \$87,973, respectively.

Debt balances and transactions for the year ended June 30, 2004 are as follows for this note payable:

	Balance 6-1-2003	Additions	Retirements	Balance 6-30-2004	Due Within One Year
Fire Truck Note Payable	\$87,973	\$-	\$(12,946)	\$75,027	\$13,688

### Enterprise Fund Bonds

Bonds payable at June 30, 2004 consist of the \$1,710,000 Water Supply and Sewage Disposal Refunding Bonds due in annual installments of \$170,000 to \$210,000 through November 2005. Interest is at annual rates of 4.7% to 4.75%. The bond proceeds were used to improve and extend the City's Water and Wastewater System.

Debt balances and transactions for the year ended June 30, 2004 are as follows for the enterprise fund bonds:

	Balance 6-1-2003	Additions	Retirements	Balance 6-30-2004	Due Within One Year
Refunding Bonds	\$615,000	\$-	\$(210,000)	\$405,000	\$205,000
Deferred Amount on Refunding	(38,373)	-	15,350	(23,023)	(15,350)
Total	\$576,627	\$-	\$(194,650)	\$381,977	\$189,650

### Refunding of Debt

On December 18, 1996, the City advance refunded the 1986 Water Supply and Sewage Disposal bonds. An accounting loss of \$138,146 was recorded as a deferred asset because the principal of refunding bonds is greater than that of the refunded bonds. The deferred asset will be amortized as interest expense over the remaining life of the bond, which amounts to \$15,350 per year, for a total of 9 years.

City of Ithaca  
Notes to Financial Statements

Annual debt service requirements to maturity for the above note payable and enterprise fund bonds are as follows:

Year Ended June 30,	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2005	\$13,688	\$3,221	\$205,000	\$14,318
2006	14,299	2,610	200,000	4,750
2007	14,936	1,973	-	-
2008	15,603	1,306	-	-
2009	16,501	408	-	-
Total	\$75,027	\$9,518	\$405,000	\$19,068

### Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

### Employee Retirement and Benefit Systems

#### Plan Description

The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all of the City's regular full-time employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2003. The City's payroll for the employees covered by the system for the year ended December 31, 2003 was \$584,822.

City of Ithaca  
Notes to Financial Statements

As of December 31, 2003, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits	10
Active plan participants – vested	18
Vested former members	2
Total	30

### **Funding Policy**

Under the provisions of this plan, members contribute between 3% and 5% of annual compensation. If a member leaves the municipality, or dies, without a retirement allowance or other benefit payable on his / her account, his / her accumulated contributions will be refunded to him / her, if living, or to his / her nominated beneficiary.

Benefit programs and provisions are established by the Retirement Board. All benefits vest after 10 years of service, except that benefits may vest after eight or six years of service if adopted by the municipality's governing body. The standard retirement age is 60 years; however, members may retire with several combinations of age and years of service and receive reduced early retirement benefits. Municipalities may adopt various other benefit programs which allow retirement at an earlier age with unreduced benefits based upon combinations of age and years of service, or just years of service. MERS also provides non-duty disability and death benefits to members after vesting requirements are met.

### **Funding Status and Progress**

The amount shown below as the "pension benefit obligation" is based on the standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and separate benefits, estimated to be payable in the future as a result of employee services to date. The measure is the actuarial present value of credited projected benefits and is intended to (1) help users assess the plan's funding status of the system on a going-concern basis; (2) assess progress made in accumulating sufficient assets to pay benefits when due; and (3) make comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

City of Ithaca  
Notes to Financial Statements

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0% and (b) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

At December 31, 2003, the assets were less than the pension benefit obligation by \$574,057, determined as follows:

<b>GASB 25 Information</b>	
<b>Actuarial Accrued Liability</b>	
Retirees and beneficiaries currently receiving benefits	\$1,045,390
Terminated employees not yet receiving benefits	11,346
Current Employees:	
Accumulated employee contributions including allocated investment income	473,442
Employer financed	1,395,193
Total actuarial accrued liability	2,925,371
Net assets available for benefits at actuarial value (market = \$2,147,003)	2,351,314
Unfunded actuarial accrued liability	\$574,057
<b>GASB 27 Information</b>	
Fiscal Year Beginning	July 1, 2005
Annual Required Contribution (ARC)	\$60,828
Amortization factor used – under-funded liabilities (30 years)	.053632

Three year trend information as of June 30 follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Fund Ratio	Covered Payroll	UAAL as a Percentage of Covered payroll
12-31-01	\$2,173,620	\$2,663,900	\$(490,280)	82%	\$542,659	111%
12-31-02	2,216,672	2,845,896	(629,224)	78%	536,132	117%
12-31-03	2,351,314	2,925,371	(574,057)	80%	584,822	98%

City of Ithaca  
Notes to Financial Statements

**Restatements**

During the 2004 fiscal year, the City has implemented various GASB Statements, as noted in Note 1 – Summary of Significant Accounting Policies.

As a result of implementing the new GASB Statements, the following restatements were made to beginning fund balance and net asset accounts:

*Fund Financial Statements – None.*

*Government-wide financial statements -*

Fund balances of general fund as of 6/30/03	\$128,143
Fund balances of special revenue funds as of 6/30/03	796,543
Fund balances of permanent funds as of 6/30/03	22,202
Governmental internal service fund net assets as of 6/30/03	438,165
Add: property taxes receivable as of 6/30/03	711,695
Add: net governmental capital assets as of 6/30/03	1,278,376
Add: deferred revenue for noncurrent note receivable	184,900
Less: governmental compensated absences as of 6/30/03	(103,407)
Less: fire truck note payable as of 6/30/03	(87,973)
Governmental net assets, restated, as of 10/1/02	\$3,368,644



**REQUIRED SUPPLEMENTARY INFORMATION**

City of Ithaca  
Budgetary Comparison Schedule for the General Fund  
For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes and penalties	\$717,190	\$747,324	\$740,413	(\$6,911)
Licenses and permits	45,400	54,400	57,303	2,903
State grants	380,929	380,929	398,570	17,641
Interest and rentals	11,600	9,400	8,242	(1,158)
Other revenues	29,500	118,100	54,037	(64,063)
Total revenues	1,184,619	1,310,153	1,258,565	(51,588)
Expenditures				
Current				
General government	605,870	608,370	634,331	(25,961)
Public safety	302,722	302,722	298,811	3,911
Public works	57,300	48,000	48,843	(843)
Recreation and cultural	4,000	4,000	4,000	-
Other	21,825	21,825	14,211	7,614
Capital outlay	58,650	41,050	37,423	3,627
Total expenditures	1,050,367	1,025,967	1,037,619	(11,652)
Excess of revenues over (under) expenditures	134,252	284,186	220,946	(63,240)
Other financing sources (uses)				
Transfers out	(79,180)	(79,180)	(84,180)	(5,000)
Total other financing sources (uses)	(79,180)	(79,180)	(84,180)	(5,000)
Excess of revenues and other sources over (under) expenditures and other uses	55,072	205,006	136,766	(68,240)
Fund Balance, July 1	128,143	128,143	128,143	-
Fund Balance, June 30	<u>\$183,215</u>	<u>\$333,149</u>	<u>\$264,909</u>	<u>(\$68,240)</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
Budgetary Comparison Schedule for the Major Street Fund  
For the Year Ended June 30, 2004

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
State grants	\$213,748	\$213,748	\$232,511	\$18,763
Interest and rentals	500	500	599	99
Other revenues	-	-	390	390
Total revenues	214,248	214,248	233,500	19,252
Expenditures				
Current				
Public works	140,359	140,359	110,959	29,400
Total expenditures	140,359	140,359	110,959	29,400
Excess of revenues over (under) expenditures	73,889	73,889	122,541	48,652
Other financing sources (uses)				
Transfers out	(78,089)	(78,089)	(49,457)	28,632
Total other financing sources (uses)	(78,089)	(78,089)	(49,457)	28,632
Excess of revenues and other sources over (under) expenditures and other uses	(4,200)	(4,200)	73,084	77,284
Fund Balance, July 1	82,295	82,295	82,295	-
Fund Balance, June 30	\$78,095	\$78,095	\$155,379	\$77,284

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
 Budgetary Comparison Schedule for the Local Street Fund  
 For the Year Ended June 30, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State grants	\$57,663	\$57,663	\$63,585	\$5,922
Other revenues	-	-	4,908	4,908
Total revenues	57,663	57,663	68,493	10,830
Expenditures				
Current				
Public works	145,212	145,212	89,654	55,558
Total expenditures	145,212	145,212	89,654	55,558
Excess of revenues over (under) expenditures	(87,549)	(87,549)	(21,161)	66,388
Other financing sources (uses)				
Transfers in	78,089	78,089	49,457	(28,632)
Total other financing sources (uses)	78,089	78,089	49,457	(28,632)
Excess of revenues and other sources over (under) expenditures and other uses	(9,460)	(9,460)	28,296	37,756
Fund Balance, July 1	42,174	42,174	42,174	-
Fund Balance, June 30	<u>\$32,714</u>	<u>\$32,714</u>	<u>\$70,470</u>	<u>\$37,756</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
Budgetary Comparison Schedule for the Library Fund  
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>			Actual Over (Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Charges for services	\$1,100	\$1,100	\$1,810	\$710
Fines and forfeits	104,700	104,700	111,190	6,490
Interest and rentals	13,600	13,600	5,820	(7,780)
Other revenues	<u>2,350</u>	<u>2,350</u>	<u>4,908</u>	<u>2,558</u>
Total revenues	121,750	121,750	123,728	1,978
Expenditures				
Current				
Recreation and cultural	156,100	156,100	153,824	2,276
Capital outlay	<u>6,500</u>	<u>6,500</u>	<u>5,873</u>	<u>627</u>
Total expenditures	<u>162,600</u>	<u>162,600</u>	<u>159,697</u>	<u>2,903</u>
Excess of revenues over (under) expenditures	(40,850)	(40,850)	(35,969)	4,881
Fund Balance, July 1	<u>201,667</u>	<u>201,667</u>	<u>201,667</u>	-
Fund Balance, June 30	<u><u>\$160,817</u></u>	<u><u>\$160,817</u></u>	<u><u>\$165,698</u></u>	<u><u>\$4,881</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
 Budgetary Comparison Schedule for the Economic Development Fund  
 For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>			<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Interest and rentals	\$600	\$600	\$214	(\$386)
Other revenues	<u>6,600</u>	<u>6,600</u>	<u>6,600</u>	<u>-</u>
Total revenues	7,200	7,200	6,814	(386)
Expenditures				
Current				
General government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	7,200	7,200	6,814	(386)
Fund Balance, July 1	<u>33,347</u>	<u>33,347</u>	<u>33,347</u>	<u>-</u>
Fund Balance, June 30	<u><u>\$40,547</u></u>	<u><u>\$40,547</u></u>	<u><u>\$40,161</u></u>	<u><u>(\$386)</u></u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
Budgetary Comparison Schedule for the Fire Operating Fund  
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>			<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Federal grants	-	\$76,000	\$76,090	\$90
Charges for services	\$73,508	73,517	71,805	(1,712)
Interest and rentals	-	-	496	496
Other revenues	-	-	1,665	1,665
Total revenues	73,508	149,517	150,056	539
Expenditures				
Current				
Public safety	87,195	91,695	92,355	(660)
Capital outlay	4,500	76,000	78,441	(2,441)
Total expenditures	91,695	167,695	170,796	(3,101)
Excess of revenues over (under) expenditures	(18,187)	(18,178)	(20,740)	(2,562)
Other financing sources (uses)				
Transfers in	43,187	43,187	43,187	-
Transfers out	(25,000)	(25,000)	(25,000)	-
Total other financing sources (uses)	18,187	18,187	18,187	-
Excess of revenues and other sources over (under) expenditures and other uses	-	9	(2,553)	(2,562)
Fund Balance, July 1	47,905	47,905	47,905	-
Fund Balance, June 30	<u>\$47,905</u>	<u>\$47,914</u>	<u>\$45,352</u>	<u>(\$2,562)</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
 Budgetary Comparison Schedule for the Gibbs Memorial Fund  
 For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>			<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Interest and rentals	<u>-</u>	<u>-</u>	<u>\$124</u>	<u>\$124</u>
Total revenues	<u>-</u>	<u>-</u>	<u>124</u>	<u>124</u>
Expenditures				
Current				
General government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>124</u>	<u>124</u>
Fund Balance, July 1	<u>\$224,761</u>	<u>\$224,761</u>	<u>224,761</u>	<u>-</u>
Fund Balance, June 30	<u>\$224,761</u>	<u>\$224,761</u>	<u>\$224,885</u>	<u>\$124</u>

The notes to the financial statements are an integral part of this statement.



**OTHER SUPPLEMENTARY INFORMATION**

City of Ithaca  
Combining Balance Sheet  
Non-Major Governmental Funds  
June 30, 2004

	SPECIAL REVENUE FUNDS					
	Cemetery Operating	First Responder	Cemetery Sinking	Fire & Rescue Sinking	Crime Prevention	Crime Victim's Rights
Assets						
Cash and cash equivalents	\$6,016	\$37,360	-	\$40,268	\$227	\$125
Investments	-	-	\$59,606	-	-	-
Due from other governments	-	1,665	-	-	-	-
Total assets	<u>\$6,016</u>	<u>\$39,025</u>	<u>\$59,606</u>	<u>\$40,268</u>	<u>\$227</u>	<u>\$125</u>
Liabilities and fund equity						
Accounts payable	<u>\$105</u>	<u>\$196</u>	<u>\$3,186</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>105</u>	<u>196</u>	<u>3,186</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance						
Unreserved, undesignated	<u>5,911</u>	<u>38,829</u>	<u>56,420</u>	<u>\$40,268</u>	<u>\$227</u>	<u>\$125</u>
Total fund equity	<u>5,911</u>	<u>38,829</u>	<u>56,420</u>	<u>40,268</u>	<u>227</u>	<u>125</u>
Total liabilities and fund equity	<u>\$6,016</u>	<u>\$39,025</u>	<u>\$59,606</u>	<u>\$40,268</u>	<u>\$227</u>	<u>\$125</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
Combining Balance Sheet  
Non-Major Governmental Funds  
June 30, 2004

	SPECIAL REVENUE FUNDS				Permanent Fund	
	Controlled Substances	Police Education & Training	Girl Scout Tree Memorial	Woodland Park Enhancement	Cemetery Perpetual Care	Totals
Assets						
Cash and cash equivalents	\$1,120	\$3,726	\$499	\$3,498	\$1,307	\$94,146
Investments	-	-	-	-	21,199	80,805
Due from other governments	-	-	-	-	-	1,665
Total assets	<u>\$1,120</u>	<u>\$3,726</u>	<u>\$499</u>	<u>\$3,498</u>	<u>\$22,506</u>	<u>\$176,616</u>
Liabilities and fund equity						
Accounts payable	-	-	-	-	-	\$3,487
Total liabilities	-	-	-	-	-	3,487
Fund balance						
Reserved for perpetual care					\$22,506	22,506
Unreserved, undesignated	<u>\$1,120</u>	<u>\$3,726</u>	<u>\$499</u>	<u>\$3,498</u>	-	150,623
Total fund equity	<u>1,120</u>	<u>3,726</u>	<u>499</u>	<u>3,498</u>	<u>22,506</u>	<u>173,129</u>
Total liabilities and fund equity	<u>\$1,120</u>	<u>\$3,726</u>	<u>\$499</u>	<u>\$3,498</u>	<u>\$22,506</u>	<u>\$176,616</u>

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
Non-Major Governmental Funds  
For The Year Ended June 30, 2004

	SPECIAL REVENUE FUNDS					
	Cemetery Operating	First Responder	Cemetery Sinking	Fire & Rescue Sinking	Crime Prevention	Crime Victim's Rights
Revenues						
Federal grants	-	-	-	-	-	-
State grants	-	-	-	-	-	-
Charges for services	\$14,576	\$21,893	\$7,130	-	-	-
Interest and rentals	65	342	688	\$97	-	-
Other revenues	-	2,727	-	-	-	-
Total revenues	14,641	24,962	7,818	97	-	-
Expenditures						
Current						
General government	65,462	-	-	-	-	-
Public safety	-	38,939	-	-	-	-
Capital outlay	-	-	-	-	-	-
Debt service	-	-	-	16,909	-	-
Total expenditures	65,462	38,939	-	16,909	-	-
Excess of revenues over (under) expenditures	(50,821)	(13,977)	7,818	(16,812)	-	-
Other financing sources (uses)						
Transfers in	51,100	21,093	-	30,000	-	-
Transfers out	-	(5,000)	(38,850)	-	-	-
Total other financing sources (uses)	51,100	16,093	(38,850)	30,000	-	-
Excess of revenues and other sources over (under) expenditures and other uses	279	2,116	(31,032)	13,188	-	-
Fund Balance, July 1	5,632	36,713	87,452	27,080	\$227	\$125
Fund Balance, June 30	\$5,911	\$38,829	\$56,420	\$40,268	\$227	\$125

The notes to the financial statements are an integral part of this statement.

City of Ithaca  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
Non-Major Governmental Funds  
For The Year Ended June 30, 2004

	SPECIAL REVENUE FUNDS				Permanent Fund	
	Controlled Substances	Police Education & Training	Girl Scout Tree Memorial	Woodland Park Enhancement	Cemetery Perpetual Care	Totals
Revenues						
Federal grants	-	-	-	-	-	-
State grants	-	\$1,628	-	-	-	\$1,628
Charges for services	-	-	-	-	-	43,599
Interest and rentals	-	-	-	-	\$654	1,846
Other revenues	-	-	-	\$50	-	2,777
Total revenues	-	1,628	-	50	654	49,850
Expenditures						
Current						
General government	-	-	-	-	-	65,462
Public safety	-	-	-	-	-	38,939
Capital outlay	-	-	-	-	-	-
Debt service	-	-	-	-	-	16,909
Total expenditures	-	-	-	-	-	121,310
Excess of revenues over (under) expenditures	-	1,628	-	50	654	(71,460)
Other financing sources (uses)						
Transfers in	-	-	-	-	-	102,193
Transfers out	-	-	-	-	(350)	(44,200)
Total other financing sources (uses)	-	-	-	-	(350)	57,993
Excess of revenues and other sources over (under) expenditures and other uses	-	1,628	-	50	304	(13,467)
Fund Balance, July 1	\$1,120	2,098	\$499	3,448	22,202	186,596
Fund Balance, June 30	\$1,120	\$3,726	\$499	\$3,498	\$22,506	\$173,129

The notes to the financial statements are an integral part of this statement.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT  
AUDITING STANDARDS***

City Council  
City of Ithaca  
Ithaca, Michigan

We have audited the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ithaca (the City) as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City, in a separate letter dated August 19, 2004.

This report is intended solely for the information of the audit committee, management, and City Council and is not intended to be and should not be used by anyone other than these specified parties.

*Roslund, Prestage & Co, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

August 19, 2004



## Management Letter

City of Ithaca  
Ithaca, Michigan

In planning and performing our audit of the financial statements of the City of Ithaca for the fiscal year ended June 30, 2004, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated August 19, 2004 on the financial statements of the City of Ithaca.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience.

Sincerely,

*Roslund, Prestage & Co, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

August 19, 2004



### **Chart of Accounts**

The Uniform Chart of Accounts for Counties and Local Units of Government in Michigan has been developed under the authority of Act 2, Public Acts of 1968, as amended, (MCL 141.421) and Act 71, Public Acts of 1919, as amended, (MCL 21.41).

The Uniform Chart of Accounts was updated in April of 2002. We recommend management to review the updated Uniform Chart of Accounts and update their accounting system to reflect these changes.

### **Property Tax Revenues**

During our audit, we found management inadvertently recorded property tax revenues in the general fund that were levied for water and sewer fund debt service. In order for this not to occur again in the future, we recommend management compare property tax revenues recognized in the general ledgers to the actual levy.

### **Trust and Agency Fund Liabilities**

The City maintains a trust and agency fund for the collection of property taxes and payroll withholdings that are to be remitted to the appropriate payee. We recommend management reconcile these liability accounts on a monthly basis.

### **Depreciation Schedule**

The City does not capitalize property and equipment acquisitions during the year; instead, the expenditures are recorded in various expense accounts and later capitalized when the annual financial statements are prepared. We recommend management follow the chart of accounts when recording these acquisitions. This will allow management to continue to assess current expenditures along with identifying significant assets that will later be capitalized.

Additionally, we recommend management update the City's depreciation schedule on a regular basis and properly account for current year acquisitions and dispositions of capitalized items.

## **Management's Discussion and Analysis**

For the year ended June 30, 2004, the City reported their financial statements under GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. One of the many requirements of GASB No. 34 is Management's Discussion and Analysis, also known as MD&A. The MD&A is intended to give the reader an easy to understand overview of the City's financial position and results of operations.

We recommend management establish an ongoing MD&A file. As events occur during the year that should be considered for disclosure in the MD&A, copies of the related documents, as well as additional notes and comments, should be placed in this file for future reference when completing the MD&A section of the annual audit.

Additionally, we recommend management have a target completion date for the MD&A by September 30th of each year. This will assure timely filing of the City's audit report with the Local Audit Division.

## **Perform a Fraud Risk Assessment**

In light of the wave of notorious frauds involving large companies in the last few years, such as Enron, WorldCom, and HealthSouth, there may be a misperception that fraud affects only large companies. However, fraud occurs in companies of all sizes, and almost any employee may be capable of perpetrating a fraudulent act given the right set of circumstances. In fact, fraud may be a more significant problem for small companies. In the 2002 survey of its members conducted by the Association of Certified Fraud Examiners (ACFE), the median loss per fraud occurrence reported from businesses with 100 or fewer employees was \$127,500, a proportionately larger loss than the \$97,000 median loss in companies with 10,000 or more employees.

Whereas the highly publicized frauds at large public companies like Enron, WorldCom, and HealthSouth involved fraudulent financial reporting, for small companies, one of the primary fraud risks is the ever-present risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and there are inadequate controls to prevent or detect the fraud.

To address this risk, we recommend that the City perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the City's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

### **Perform a Fraud Risk Assessment (continued)**

The fraud risk assessment can be informal and performed by a management-level individual. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the City, its environment, and its processes. The fraud risk assessment process should consider the City's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- Which individuals in the City have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate individuals with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of individuals with access to assets susceptible to misappropriation.
- What assets of the City are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious individuals or vendors and cashing them for personal use. Inventory or other assets can be stolen through sales to fictitious customers. Assets can also be stolen by unauthorized trading in securities.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running it through as an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.
- What factors might indicate that the City has a culture or environment that would enable management or individuals to rationalize committing fraud?

### **Perform a Fraud Risk Assessment (continued)**

Once areas vulnerable to fraud have been identified, a review of the City's systems, procedures, and existing controls relating to the identified areas should be conducted. The City should consider what additional controls need to be implemented to reduce the risk of fraud. There are two basic types of controls—those that are designed to address specific types of fraud, and those that are more general in nature. General controls that reduce an individual's ability to commit fraud without detection include the following:

- Requiring Periodic Job Rotation and Mandatory Vacations. When an employee stays in the same position for a long period and has few absences, an opportunity exists for that employee to design and commit fraud schemes. Requiring key individuals to rotate jobs periodically or to transfer to different job functions is one way to address this fraud risk. Requiring all individuals to take an annual vacation, during which time others perform their job functions, also makes it more difficult for an employee who is committing fraud to continue concealing the fraud scheme.
- Preparing and Reviewing Monthly Financial Statements in a Timely Fashion. As previously mentioned, many frauds create accounting anomalies. Thus, one way to detect fraud on a timely basis is to review monthly financial statements and investigate unusual variances. If possible, these statements should include budget, prior period, and year-to-date amounts to help identify variances. Performing the review and investigation on a timely basis helps minimize the extent of potential fraud.
- Implementing an Employee Hotline. Tips and complaints from fellow employees or vendors have enabled many companies to discover occurrences of fraud. Anonymous telephone hotlines allow honest employees and vendors who may fear retaliation from fraud perpetrators to report unethical behavior without risking exposure.

### **Perform a Fraud Risk Assessment (continued)**

Examples of controls to prevent or detect specific types of fraud include the following:

- Independent Checks of work performed. Independent checks test another employee's work, such as by having a second employee re-perform or test an employee's work.
- Separation of Duties. Separation of duties is one of the most effective controls to prevent or detect misappropriations of assets. When possible, incompatible duties should be performed by different employees. For example, the responsibility for authorizing transactions, recording transactions, and maintaining custody of assets should be assigned to different people in the City to the extent possible.

When assessing the Company's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered. For example, instead of trying to prevent fraud, the City may choose to use more detective controls to ensure that the fraud is identified and corrected in a timely fashion. Because detective controls are performed after the original transaction occurs, they may be easier to implement and more cost effective.

We would be pleased to provide more information about performing a risk assessment or assist management in performing one.